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C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 001682

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TAGS: [EMIN](#) [KNNP](#) [ENRG](#) [ETRD](#) [ECON](#) [IN](#) [UZ](#)
SUBJECT: NUKEM'S URANIUM QUOTA UNMET BY UZBEKS

REF: A. A) 06 TASHKENT 650
[B. B\) TASHKENT 1514](#)
[C. C\) STATE 128731](#)

Classified By: CLASSIFIED BY ECON OFF B. OLSEN FOR REASONS 1.4 (B, D).

[1](#)1. (C) Summary: As per ref C guidance, econoff informed Nukem Inc.'s Tashkent Head of Office, Yevgeny Onokhin, of the Indian Embassy's inquiry into Nukem's business in Uzbekistan. Onokhin said he is cautious yet open to meeting with the Indians. DCM informed the Indian Ambassador he should direct his inquiries to Nukem. He said the government-owned Navoi Mining and Metallurgy Combine (NGMK) is three months behind in supplying Nukem with uranium, even though its stockpiles are over twice the legally permitted amount. Onokhin said the Government of Uzbekistan (GOU) is stalling its contractually-obliged uranium shipment to Nukem while it demands the renegotiation of numerous contracts with international buyers. Meanwhile, the GOU is seeking out new foreign companies willing to purchase uranium at a price higher than it receives from Nukem. The Japanese company Itochu recently signed a limited five-year contract with NGMK. End summary.

Nukem's Supply Problems

[1](#)2. (C) On September 20, Nukem's Office Head told econoff the GOU is seeking out alternative buyers and stalling its supplies to Nukem to maximize its revenue from uranium. Nukem has an exclusive contract with the NGMK to export all but 300,000 tons of uranium extracted from the Navoi mine. This is currently Uzbekistan's only active uranium mine. To date, NGMK is over three months behind in supplying uranium to Nukem, and the previous shipments in 2007 were only partial. The Nukem official said NGMK is stockpiling over 750 tons of uranium, although its capacity is 300 tons. (Note: The International Atomic Energy Association licensed NGMK mine to stockpile up to 300 tons.) Onokhin expressed concern over potential environmental degradation from the excess uranium.

[1](#)3. (C) Nukem's downstream deliveries are due in one month to users in Europe, Asia and the U.S. This year NGMK, in concert with the Ministries of Finance and Foreign Economic Relations, renegotiated four contracts with foreign buyers, something Onokhin said is abnormal practice in the uranium industry. Recently NGMK told Nukem it wants to renegotiate

for the second time. Onokhin said the GOU did not like the renegotiated price and has stopped shipment until new prices can be agreed upon. The GOU's economic pricing formula is tied to the spot-market price, which is currently high. However, long-term contracts are seldom tied to this price. Nonetheless, the Uzbeks are trying to maximize their profit, regardless of whether doing so violates contractual obligations. Some of the downstream buyers have refused to renegotiate, stating that NGMK must honor its contracts.

¶4. (C) Onokhin said if Nukem is sued by its buyers, it will sue NGMK. He added it was too early to worry about such a situation, as his company is still optimistic that the problems will be resolved. Nukem experienced similar, yet milder, problems in 2006 (ref B). Onokhin told econoff that Rustam Azimov, the Minister of Finance, is quietly seeking control over NGMK and its assets. (Note: NGMK also is handling the gold tailings operations of the former Zarafshan-Newmont joint venture. End note.) From the beginning of 2007, NGMK's ability to make contracts was removed and now Azimov must approve all contracts. A similar phenomenon occurred in 2004 with the government-owned Almalyk copper mine: the price of copper soared and government officials quietly vied for control.

Looking for New Buyers

¶5. (C) According to Onokhin, this year the Uzbeks approached the Russians to buy uranium. The Russians told them they were uninterested and would call if and when they were. Nukem's representative said the Indians approached the Uzbeks a few years ago to purchase 30-50 tons of uranium. Nukem

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convinced the GOU to decline the offer, as India is not a member of IAEA and Uzbekistan would be solely responsible for transport and any ensuing problems. Responding to econoff's comment that the Indian Embassy inquired about Nukem with Post (ref C), Onokhin opined the Uzbeks might have approached the Indians first. Onokhin is aware of the current prohibition on engaging in nuclear trade with India, and is cautiously receptive to the Indian Embassy's interest. Separately, DCM informed the Indian Ambassador on September 17 that he should direct his inquiries to Nukem. The Indian Ambassador was disappointed we had to substantive response for him.

¶6. (C) Itochu, a Japanese company, recently signed a five year contract with NGMK to purchase 300 tons of uranium/year. Onokhin said the Japanese company has agreed to buy uranium in 2007 at the short-term market price with no commission; it reserves the right not to buy uranium during the final four years of the contract. By contrast, Nukem has a long-term contract with NGMK and receives a commission. In the short-term with high market prices for uranium, Uzbekistan receives more per ton by selling to Itochu than Nukem. If the price of uranium falls, the reverse could be true. Nukem's contract with NGMK states that NGMK may sell up to 300,000 tons of uranium directly to buyers once it has fulfilled its minimum supply obligation of 180,000 tons to Nukem.

¶7. (C) Uranium exported from Uzbekistan transits Kazakhstan. Onokhin said Kazakhstan's border regulations are increasingly more bureaucratic. NGMK must have a new transit license from Kazakhstan to ship uranium to Itochu. A requirement to receive the license is a letter from Nukem stating it does not object to the sale. Onokhin told econoff his company would only write a letter stating that Nukem does not object to the sale if NGMK first meets its supply obligations to Nukem.

¶8. (C) Comment: Uzbekistan is benefiting from a scarcity of uranium; if the market price were lower and supply larger, it would not be able to play such games with its buyers: buyers

would seek out other markets. Even though the GOU repeatedly tells the Embassy it is interested in working to attract U.S. (and foreign) investment, its actions continue to tarnish Uzbekistan's reputation in the global market.

NORLAND